CARE Ratings
Professional Risk Opinion

Sectoral Deployment of Credit: May 2015

Growth in bank credit in FY15 was low at 9.5% with both the manufacturing and services sectors registering low growth of 5.6%. This picture continues to prevail in FY16. The data on growth in credit during the first two months suggests:

1. As of May '15, overall growth in credit over March '15 has been unchanged at 0.8%.
2. Growth in non-food credit was higher at 0.76 % (0.40% last year).
3. This growth enabled more bank credit to services which turned positive and higher retail loans.
4. Growth in credit to the manufacturing sector remains in negative territory with large and medium witnessing negative growth. Micro and small businesses have witnessed relatively higher growth.

Industry now has a share of 43% in outstanding gross bank credit followed by services with 23.3%, personal loans 19.1% and agriculture 12.6%. For overall credit to grow by 14-15% for the year there has to be a pickup in credit to the manufacturing sector.

Table 1: Sectoral distribution of credit

Sector	o/s May 2015 (Rs bn)	May/March 2014 % growth	May/Mar 2015 % growth
Gross Bank Credit	61,516	0.85	0.81
Food Credit	1,027	27.86	3.36
Non-food Credit	60,489	0.40	0.76
Agriculture & Allied Activities	7,779	5.27	1.57
Industry	26,389	-0.29	-0.70
Micro & Small	3,851	0.92	1.35
Medium	1,246	-3.20	-1.55
Large	21,292	-0.32	-1.02
Services	14,372	-1.53	1.71
Transport Operators	921	-3.97	0.54
Trade	3,702	-1.06	1.24
Commercial Real Estate	1,659	0.66	-0.36
NBFCs	3,206	3.36	2.86
Other Services	3,389	-7.24	3.06
Personal Loans	11,949	1.47	2.44
Consumer Durables	157	8.26	2.67
Housing	6,484	2.81	3.15
Vehicle Loans	1,297	4.49	4.10

Source: RBI

In the retail loans segment, housing continues to dominate with a share of 54%. Higher growth in this segment may be attributed to lower rates offered by banks on account of two rate cuts invoked by the RBI in January and March 2015. Vehicle loans too have been quite buoyant registering a growth of 4.1% in these two months and now account for 10.8% of total retail loans.

Within services, besides the miscellaneous category, trade has witnessed higher growth while NBFCs, though lower than last year was higher than the sector and industry average at 2.9%. There has also been a significant increase in bank credit to the service segments of computer software, transport operators and shipping.

Industry-wise growth in credit

Table 2: Growth in credit to Manufacturing: Industry-wise

Industry	o/s May 2015	May/March 2014	May/Mar 2015
Mining & Quarrying (incl. Coal)	357	5.3	-0.6
Food Processing	1,662	2.3	-3.1
Beverage & Tobacco	184	-2.2	-1.3
Textiles	2,010	-1.5	-0.5
Leather & Leather Products	103	-4.2	0.6
Wood & Wood Products	98	0.7	-0.3
Paper & Paper Products	340	-0.6	-0.1
Petroleum, Coal Products & Nuclear Fuels	523	-10.3	-6.9
Chemicals & Chemical Products	1,520	-8.3	-1.6
Rubber, Plastic & their Products	365	-3.3	-3.3
Glass & Glassware	88	1.7	-0.4
Cement & Cement Products	563	2.9	0.5
Basic Metal & Metal Product	3,836	-1.8	-0.5
Iron & Steel	2,840	-1.1	0.2
All Engineering	1,524	0.3	-1.0
Vehicles, parts, & Transport Equipment	698	-2.0	2.4
Gems & Jewellery	706	-5.1	-1.7
Construction	734	11.0	-1.2
Infrastructure	9,278	2.1	0.3
Power	5,674	2.6	1.8
Telecommunications	885	2.9	-3.7
Roads	1,680	1.7	-0.4
Other Infrastructure	1,038	-0.4	-2.4
Other Industries	1,799	-1.2	-2.2
All Industries	**26,389**	**-0.3**	**-0.7**

Source: RBI

1. Growth in credit to almost all industries was negative during the first 2 months of the year. The exceptions were leather, cement, steel and infrastructure. Note, despite being positive, the credit deployment in the infrastructure sector grew at a slower pace (0.3% in FY16 and 2.1% in FY15) relative to last year. Within infrastructure, power witnessed positive growth of 1.8% while other sectors like telecom, roads and other infrastructure decelerated.
2. Credit deployment in the key industries of construction, mining & quarrying, food processing, engineering was seen to decline.
3. This profile does indicate that there is yet to be a recovery in overall investment in manufacturing as viewed from the credit side.

Other observations

During this two month period, the base rate has been lowered by banks by 25 bps from a range of 10-10.25% in March end to 9.75-10% in May end 2015. However, this has not led to an increase in credit to the manufacturing sector, though retail loans and services witnessed higher growth, which may be partly attributed to lowering of rates by banks.

Another development during this period has been an increase in recourse to the Commercial paper market by companies. Issuances in the first 2 months were Rs 2,597 bn as against Rs 1,635 bn during the same period of last year. Assuming that these issuances would be from both manufacturing and services, it may be surmised that there is some element of substitution taking place between bank credit and CP market from the perceptive of borrowers.

Similarly the corporate bond market has seen higher private placements during this period of Rs 1,055 bn compared with Rs 326 bn last year (based on SEBI data). Public issues were marginally lower at Rs 4.01 bn as against Rs 4.50 bn. These trends need to be monitored closely for some more months.

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